



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Assembly Committee on Consumer Protection and Personal Privacy
10:00 a.m.

Thursday, January 25, 2007
400 Northeast, State Capitol

Informational Hearing Regarding Release of Social Security Numbers

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Members of the Committee:

Thomas Lothian, Chair

Brett Davis, Samantha Kerkman, Jeffrey Mursau, David Cullen, Peggy
Krusick, Jennifer Shilling, Andy Jorgensen

Testimony:

Good Morning Chairman Lothian and committee members. I am
Roger Ervin, Secretary of the Department of Revenue.

Let me begin by thanking the committee for the opportunity to
personally brief the public on the recent accidental release of social
security numbers on Wisconsin Tax Form 1 booklets.

As you know, I have only been in my position for just over one week,
but in that short time it is clear to me that the Department of Revenue is
comprised of very professional, well-trained staff that are dedicated to the
State's taxpayers. This particular incident is a very unfortunate mistake
and I know that I speak for everyone in the Department when I express my
deepest apologies for what occurred. Nevertheless, I will tell you that I am
very pleased with how our employees came together to resolve this matter
quickly and effectively. Over the long term, my goal, as Secretary, is to
take this organization to the next level, to make the Department of Revenue
a model government agency and to do everything I can to increase the
trust and confidence of the millions of customers that we serve.

My intent today is to provide you with a complete understanding of
what occurred, what the Department is doing to protect the affected
taxpayers, and the steps that the Department has already taken to ensure
that this type of error will not occur in the future. I also want to make sure
that I address any remaining questions or concerns you may have.

Background on the Mailing of Tax Forms

Each year the Department mails tax forms to a limited number of individuals – generally those who do not file electronically in the previous year or for various other reasons, such as if a correction was made to an electronically filed return.

Prior to 1998, the Department included social security numbers on the labels of booklets mailed to taxpayers and the printing was performed within state government. In 2004, the Department made a decision to contract this work to Ripon Community Printers. In order to maintain data security, all third party contracts that require the use of confidential information such as names, addresses and social security numbers, includes a strict confidentiality clause prohibiting unauthorized disclosure of any such information. The contract with Ripon Community Printers included this clause. A review of the form template from the company was performed by the Department prior to the final printing and that template did not include social security numbers.

On December 29, 2006, however, the Department became aware through a phone call from a taxpayer that some booklets had been printed and mailed with social security numbers printed in the address section of the booklets. Upon further investigation, the Department was informed by the printer that an error in their addressing program resulted in the printing of social security numbers of the secondary taxpayers on roughly 171,000 Form 1 booklets being sent to married couples who file jointly.

The Department took immediate action that same day.

- First, senior Department officials contacted the printer and post office to attempt to retrieve any booklets that had not already been delivered. The first batch had been mailed on Wednesday, December 27, but not all of the forms had gone out. Fortunately, the Department was able to retrieve roughly 40,000 of the affected booklets.
- Second, the Department contacted the news media to alert taxpayers of the situation and to encourage them to check their mailboxes for their forms. We also issued a public apology for the error.

What the Department is Doing to Protect Affected Taxpayers

The Department also acted quickly to reach out to the Office of Privacy Protection and the Credit Bureaus to determine how best to provide taxpayers with the information and access to services necessary to protect them from any potential identity theft connected to this error. As a result of those internal and external discussions, the Department has taken the following actions:

- 1) We retrieved the database with social security numbers from the vendor. We provided them with a clean database that only contained essential information for the mailing.
- 2) We contacted all three major credit bureaus to alert them to the potential problem. This includes Experian, Equifax and TransUnion. It is important to note that we were advised not to provide the names of affected taxpayers for the purpose of placing a freeze or alert on their credit files, as this could create problems for individuals on pending or future credit applications.
- 3) On January 3, we posted a frequently asked questions page on our website that provides concerned taxpayers with information on steps they might want to take immediately to protect their credit rating, such as placing a free 90 day fraud alert on their accounts.

The Department also established three priorities for addressing the situation:

- 1) Identifying and notifying all affected taxpayers and providing them with appropriate remedies as quickly as possible.
- 2) Providing access to free credit monitoring to affected taxpayers as responsibly and expeditiously as possible.
- 3) Reprinting the tax booklets that we had been able to retrieve and mailing those to taxpayers.

We sought bids for the credit monitoring based on projected response rates. Our research indicated that response rates to an offer of free credit monitoring are often quite low in similar cases, with a range of 4-8%. We were able to secure a bid for \$25 per enrollee that includes daily credit monitoring; monthly all clear notifications; assistance from fraud resolution representatives; toll-free customer service; a free credit

report; and \$20,000 identity theft insurance. At a 4-8% response rate the total estimated cost is roughly between \$170,000 to \$340,000. In addition to the cost associated with monitoring, we anticipate the total costs associated with the notification to taxpayers and the mailing of the Form 1 booklets will be in the ballpark of an additional \$100,000. This expense is the sole responsibility of the printer.

A key aspect to resolving this crisis was to hold the printer accountable for this mistake. Therefore, our legal team contacted the printer to negotiate remedies covering the costs of the actions that I described above. This was an appropriate course of action given the contractual agreement between the Department and the printer. Our goal was to avoid costly and time consuming litigation in order to swiftly resolve these matters and get information to the affected taxpayers as soon as possible. Protecting taxpayers was our number one priority.

The resulting settlement between the Department and the vendor includes the following:

- The printer agreed to incur all costs associated with the printing and mailing of two letters; one from the printer and one from the Department.
- The printer agreed to incur all costs associated with the reprinting and mailing of the Form 1 booklets for those persons whose booklets were retrieved.
- The printer agreed to pay for the first \$110,000 in costs associated with the credit monitoring offer.
- The printer agreed to destroy all remaining files in its possession that contain social security numbers.
- The printer agreed it would indemnify the Department against all suits, actions or claims brought for any damages to persons and property resulting from the misprint, including but not limited to identity theft.

A mailing was sent to affected taxpayers from the Department beginning on January 19. Information contained in the mailing includes a letter from the Department, an enrollment form from Equifax, and a letter from the printer acknowledging the mistake. The department's letter also provides a phone number to a dedicated line where affected

taxpayers can get a pin number necessary to access free credit monitoring with Equifax. They are required to supply supporting verification both when they call the Department to get the pin and when they contact Equifax.

What the Department is Doing to Assure Taxpayers this Will Not Occur Again

Concurrent to our efforts to protect taxpayers, the Department is also reviewing all internal operational and security measures to ensure this will not occur again. To ensure a higher level of management on security issues, we are doing the following:

- 1) Top level personnel were immediately assigned to review procedures related to managing processes, contracts, interfaces and data sharing to ensure that confidential information is protected.
- 2) I will be appointing a Privacy Protection officer to lead a team to review and update all internal policies related to confidentiality of taxpayer information. This person is also charged with researching best practices in this area with the goal of making the Department of Revenue an agency whose security practices others will emulate. This will be an ongoing role for this individual, but the initial report back with recommendations for policy and operational changes is to be completed by the first half of 2007.
- 3) Our staff will be required to annually update their confidentiality training. The Department already requires such training of all employees upon hiring and annual retraining for many employees. Now all employees will be required to have annual retraining and to update a confidentiality agreement for their personnel file annually. This retraining has already started.
- 4) We are working to expunge non-essential confidential information from all communications with taxpayers.
- 5) Finally, we will no longer provide vendors with data that is not required to fulfill their contractual obligations.

Mr. Chairman, in closing, let me reiterate how critical it is for the citizens of Wisconsin to understand that, despite this unfortunate incident, they can be reassured that the Department of Revenue, and in fact, the entire state government, takes the utmost care to protect confidential

information of every resident and business of our great state. They should also know that the Department is continuing to provide excellent taxpayer services and stands ready to address any and all questions and concerns. Trust and confidence in the tax system is what we strive for every day and you and the members of the committee can be assured that we will meet the highest standards during my tenure.

Again, I thank you for the opportunity to appear before the committee and I would be glad to answer any questions that you may have today.

Thank you.